MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BBF3284 – INTERNATIONAL FINANCE

(All sections/Groups)

5 MARCH 2018
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 3 pages with 1 Section only.
2. Answer **ALL** questions.
3. The distribution of the marks for each question is given at the end of each question.
4. Please write your answers in the Answer Booklet provided.

INSTRUCTION: ANSWER ALL QUESTIONS (100 MARKS)

QUESTION 1

Govt: 40 foreign companies moved overseas in past 4 years

November 7, 2017

PETALING JAYA: International Trade and Industry Minister Mustapa Mohamed told the Dewan Rakyat today that **about 40 foreign companies have closed down and moved their operations to other countries** since 2013.

He said this in a written reply to a question from Fong KuiLun (DAP-Bukit Bintang) about the inflow of foreign investments in the country over the past four years, as well as about companies deciding to move operations elsewhere.

The minister reiterated that the impact from the departure of the companies is minimised as the country continues to receive high-value foreign investments.

"Between 2013 and 2016, some 1,598 foreign investments in the manufacturing sector were approved, with a total value of RM119.5 billion.

"From the total, 705 projects were new projects worth RM64.3 billion, while the other 893 projects valued at RM55.2 billion involve expansion and diversification," Mustapa said.

He listed some of the major investors as Lotte Chemical Titan, Biocon, Robert Bosch and B Braun Medical Industries.

On that note, Mustapa said that the government is optimistic Malaysia's competitiveness in attracting high quality foreign investments would be maintained despite the challenging global economic situation.

"This is because of the government's commitment to enhance and **introduce various strategies.**

Source: http://www.freemalaysiatoday.com/category/nation/2017/11/07/govt-40-foreign-companies-moved-overseas-in-past-4-years-2/

a. From the passage, about 40 foreign companies have closed down and moved their operations to other countries. In your opinion, what factors caused foreign investors move out of Malaysia? Explain **FIVE (5)** reasons by using the market imperfection theory. (20 marks)

b. From the passage, the minister reiterated that the impact from the departure of the companies is minimised. What are the impacts of companies' departure on Malaysia's **current account** and **financial account** of the balance of payments (BOP), gross domestic products (GDP), and the value of Ringgit Malaysia (RM)? Explain with examples. (16 marks)

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c. Suggests **TWO (2)** strategies to attract foreign investments. (4 marks)

(Total: 40 marks)

QUESTION 2

a. How would you define transaction exposure? How is it different from translation exposure? (6 marks)

b. Suppose that the treasurer of ABC has an extra cash reserve of US$100 million to invest for six months. The six-month interest rate is 8 percent per annum in the United States (U.S.) and 7 percent per annum in Germany. Currently, the spot exchange rate is €1.01 per dollar and the six-month forward exchange rate is €0.99 per dollar.

i. The treasurer of ABC does not wish to bear any exchange risk. Where should he or she invest to maximize the return? (11 marks)

ii. The treasurer of ABC, who wishes to bear the exchange risk invested in Germany. At what future spot rate (€/US$) do you think the treasurer may be indifferent between the investment in the U.S. and Germany? (3 marks)

(Total: 20 marks)

QUESTION 3

a. ABC purchased computer chips from DEF, a Japanese electronics concern, and was billed ¥250 million payable in three months. Currently, the spot exchange rate is ¥105/US$ and the three-month forward rate is ¥100/US$. The three-month money market interest rate is 8 percent per annum in the United States (U.S.) and 7 percent in Japan. The management of ABC decided to use a money market hedge to deal with his yen account payable. Compute the dollar cost of meeting this yen obligation. (8 marks)

b. Suppose the annual inflation rate in the U.S. is expected to be 6%, while it is expected to be 2.5% in Australia. The annual interest rate in the U.S. is expected to be 9%, while it is expected to be 3% in Australia. The current spot rate for the Australian Dollar (AD) is $0.85. According to relative PPP, estimate the expected percentage change in the value of the AD during a one-year period. (6 marks)

c. Explain **TWO (2)** differences between the domestic and multinational optimal capital structure. (6 marks)

(Total: 20 marks)

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QUESTION 4

a. Assume that the ABC Bank trading room is dealing on the following quotations:

Spot Sterling = $1.4500
Euro-Sterling interest rate (6-months) = 11.00% p.a.
Euro-$ interest rate (6-months) = 6.00% p.a.
Forward Sterling (6-months) = $1.5100

How much profit would you expect to make from a risk-free covered interest arbitrage (CIA)? Assume that you have Sterling 666,666.67 or equivalent.
(10 marks)

b. Profit estimates for Japanese companies - ABC Motor Co., DEF Motor Corp. and GHI Inc. were cut by analysts after the United Kingdom's (the U.K.) decision to exit the European Union (EU). Describe **TWO (2)** possible causes as to why analysts cut their prediction. (10 marks)

(Total: 20 marks)

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